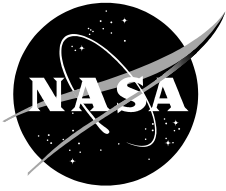


Office of Inspector General

Semiannual Report

April 1, 1995 - September 30, 1995



Office of Inspector General

The Honorable Daniel S. Goldin
Administrator
National Aeronautics and
Space Administration
Washington, DC 20546

Dear Mr. Goldin:

I am pleased to submit to you my first semiannual report on the activities and accomplishments of the Office of Inspector General (OIG) for the period which ended September 30, 1995. This report is required by the Inspector General Act of 1978, as amended, and is to be forwarded by you to the Congress.

The OIG recognizes the downsizing and budgetary challenges facing the Agency and is dedicated to helping create a NASA that works better and costs less. This office continues to establish effective partnerships within NASA to effect valuable improvements within the Agency's programs and operations.

Our accomplishments are summarized in the Statistical Highlights and Executive Summary sections, and have been realized in part with the support of NASA managers. Significant matters are grouped in this report by major program area.

While maintaining our independence and objectivity, we will continue to pursue the detection and prevention of fraud, waste, and mismanagement. We also will respond professionally and timely to requests for assistance, within our resource constraints and priorities.

I appreciate the cooperation and consideration extended to us by you and NASA management at all levels, and look forward to addressing the challenges and opportunities which face the Agency.

Sincerely,

Roberta L. Gross
Inspector General

Enclosure

Inspectors General Vision Statement

We are agents of positive change striving for continuous improvement in our agencies' management and program operations and in our own offices.

Mission and Authority

The Inspector General Act of 1978, as amended, creates independent audit and investigative units, called Offices of Inspector General (OIGs), at 61 Federal agencies. The mission of the OIGs, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness and efficiency within the agency.
- Prevent and detect fraud, waste and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers IGs with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Statement of Reinvention Principles

We Will:

- Work with our agency head and the Congress to improve program management.
 - Maximize the positive impact and ensure the independence and objectivity of our audits, investigations and other reviews.
 - Use our investigations and other reviews to increase Government integrity and recommend improved systems to prevent fraud, waste and abuse.
 - Be innovative and question existing procedures and suggest improvements.
 - Build relationships with program managers based on a shared commitment to improving program operations and effectiveness.
 - Strive to continually improve the quality and usefulness of our products.
 - Work together to address Government-wide issues.
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Statistical Highlights

April 1, 1995 - September 30, 1995

AUDITS

<u>Activities</u>	OIG Reports Issued	22
	DCAA Reports Referred to NASA Management by OIG	17
	Other External Reports Referred to NASA Management by OIG	0
	Management Letters Issued	1
<u>Impact</u>	Recommended Better Use of Funds	
	OIG	\$548.5 million
	DCAA	0
	Other External	0
	TOTAL	\$548.5 million
	Questioned Costs	
	OIG	\$ 2.7 million
	DCAA	8.7 million
	Other External	0
	TOTAL	\$ 11.4 million

INVESTIGATIONS

<u>Activities</u>	Cases Opened	159
	Cases Closed	155
	Cases Pending (326 criminal and 30 noncriminal)	356
	Hotline Complaints	
	Received	45
	Referred to Audits or Investigations	38
	Referred to NASA Management	2
	Referred to Other Agencies	3
	No Action Taken	2
<u>Impact</u>¹	Indictments/Informations	20
	Convictions/Plea Bargains/Pretrial Diversions	27
	Cases Referred for Prosecution	21
	Cases Declined	17
	Cases Referred to NASA Management for Action	53
	Cases Referred to Other Agencies for Action	9
	Suspensions/Debarments	
	Individuals	14
	Firms	6
	Administrative Actions	
	NASA Employees	32
	Contractor Employees	35
	Recoveries	\$5.6 million
	Funds Put to Better Use6 million
	TOTAL OIG Investigations Dollar Impact	\$6.2 million

¹ Includes results from joint investigations.

This semiannual report summarizes the audit and investigation activities performed by the Office of Inspector General (OIG) during the 6-month period which ended September 30, 1995, pertaining to programs and operations of the National Aeronautics and Space Administration (NASA). The report is required by law for the purpose of keeping the Administrator and Congress currently and fully informed. This section highlights some of the matters which have been reported.

AUDITS

- A potential savings of about \$528 million is possible if nozzle manufacturing and refurbishment operations are not transferred.
- About \$13 million of construction projects may not be needed if NASA implements its proposed restructuring decisions.
- A contractor inappropriately charged NASA nearly \$660,000 in travel costs, while improved contractor travel policies, procedures, and enforcement could potentially save approximately \$3 million.
- A contractor charged NASA unreasonable early retirement benefits totaling about \$1,425,000.
- The OIG rendered an unqualified opinion on NASA's FY 1994 financial statements.
- NASA could potentially recover \$600,000 and avoid \$4.2 million in costs if it determines that its funds augmented facility construction in violation of Congressional intent.

INVESTIGATIONS

- The Government recovered over \$1.2 million after disclosure that a contractor did not credit NASA the income derived from an ownership agreement, value of free rent, or build-out allowance.
- A subcontractor paid \$200,000 to resolve issues related to allegations it defectively priced a subcontract on a telerobotics program.
- A company that was falsely represented as a small business and that improperly obtained contracts repaid \$141,000.
- A contractor was indicted on charges of mail fraud for having sold falsely certified fasteners to the Government.
- A contractor falsely certified that it had not submitted equivalent Small Business Innovative Research Program proposals to other agencies, and paid \$115,000 to settle civil claims.

High Risk Areas and Material Weaknesses

The OIG continues to focus attention on: (1) the NASA areas included on the Governmentwide list of "high risk" areas identified by the Office of Management and Budget (OMB), (2) material weaknesses and areas of significant concern reported under the Federal Managers' Financial Integrity Act (FMFIA), and (3) areas of material nonconformance considered by the OIG to be reportable under the FMFIA Act. During this reporting period the OIG performed work in the following category:

FINANCIAL MANAGEMENT

- We continue to work with NASA management to plan and develop a single, integrated accounting system that would enable NASA to better comply with the Chief Financial Officers Act of 1990 and OMB requirements.

Introduction

The Agency was created by the National Aeronautics and Space Act of 1958. The Act provides that the Nation's aeronautical and space activities shall be the responsibility of, and shall be directed by, a United States civilian agency, except that activities primarily associated with defense shall be the responsibility of the Department of Defense (DOD). Research and development activities of NASA are directed and managed from Headquarters in Washington, DC, nine field installations, the Jet Propulsion Laboratory (a Federally-funded research and development facility), and several component installations. Research and development work managed and funded by NASA is largely executed by contractors. In fiscal year (FY) 1995, NASA employed nearly 22,400 civil servants and about 39,000 on or near site support services contractor employees. NASA budget authority (to obligate Agency funds) for FY 1995 totaled approximately \$14.4 billion.

ROLE OF THE INSPECTOR GENERAL

The NASA OIG, established by the Inspector General Act of 1978 (PL 95-452), as amended, performs a balanced program of audits and investigations to assist NASA management in promoting economy, efficiency, and effectiveness in the administration of its programs and operations, and preventing and detecting fraud and mismanagement. With over 88 percent of the Agency's total obligations allocated to procurement, a significant amount of OIG activity is directed toward procurement effectiveness and irregularities, and contract fraud. OIG investigators and auditors conduct independent investigations and audits of NASA's programs and operations. The OIG works jointly with other Offices of Inspector General, the Federal Bureau of Investigation (FBI), the Defense Contract Audit Agency (DCAA), and other investigative and audit entities when concurrent jurisdiction exists.

The OIG is organized into three major units: Audits, Investigations, and Administration. OIG personnel primarily are located at NASA Headquarters and at ten NASA installations. Of the OIG's authorized staffing level, approximately 81 percent are assigned to its field offices. Working under the general direction of the Inspector General (IG) and the Deputy Inspector General (DIG), the Assistant Inspectors General for Auditing (AIGA) and Investigations (AIGI) are

responsible for the development, implementation, and management of their respective programs. During the next reporting period we will be establishing an inspections and assessments function. The OIG Center Directors report administratively to the DIG and are responsible for the audits and investigations conducted in their geographic territory. For all audit and investigative operations, the OIG Center Directors report directly to the AIGA and the AIGI, respectively. The OIG has its own legal counsel and personnel and budget authority. During this reporting period, Roberta L. Gross was appointed Inspector General. Recruitment actions were initiated to fill the vacant AIGA and AIGI positions.

AUDITS

Section 5(a) of the Inspector General Act, as amended, delineates those areas to be covered in the semiannual report including identification of significant problems, abuses, and deficiencies relating to the agency's programs and operations and the recommendations made in the current reporting period with respect to those issues. In 1980, the Senate Committee on Appropriations directed the Inspector General to include in the semiannual report a summary of unresolved audits.

OIG audits evaluate the economy, efficiency, and effectiveness with which NASA programs and

operations are performed and managed at all NASA installations and by NASA contractors and grantees. During this period, the OIG issued 22 audit reports that addressed program and operational areas with high vulnerability in terms of risk and impact on NASA operations, internal control weaknesses, and other management deficiencies. Appendix I lists these reports. Since many of NASA's major contractors are also DOD contractors, the services of the DCAA are relied upon for most audits of contractors. The OIG, in coordination with the DCAA, has expanded its audit coverage of NASA contractors for many reasons, including: issues reported in OIG audits and investigations, the importance of contractors in performing NASA's mission, continued use of on-site contractors to provide support services to NASA, and the significant impact contractor data has on NASA's financial statements.

Audits of NASA grants and contracts at most educational and nonprofit institutions are performed by public or state auditors under oversight of a cognizant Federal agency. Audit reports provided to the OIG are reviewed, and those containing significant issues are referred to NASA management. Appendix II lists 17 DCAA audit reports that were referred by the OIG to management during this period. Information on all DCAA reports issued and action taken by NASA management during the 6-month period is contained in Appendix III.

Management letters are used to quickly bring matters to the attention of NASA management. During this reporting period, the OIG issued to a Center one such letter that identified two conditions warranting management's attention of a high risk operation. We found that required safety reviews of a buoyancy simulator were not accomplished and training requirements were not adequately defined. Management agreed with our observations and agreed to take corrective actions.

Chief Financial Officers (CFO) Act. The CFO Act of 1990 (PL 101-576) requires: (1) Federal agencies to produce certain financial statements beginning with statements for FY 1991, and (2) the OIG of those agencies to audit those statements.

To meet its responsibilities under the CFO Act, the OIG has a committed cadre of auditors performing financial audits.

INVESTIGATIONS

Sections 5(a)(1) and (2) of the Inspector General Act, as amended, delineate those areas to be reported in the semiannual report including identification of significant problems, abuses, and deficiencies relating to the agency's programs and operations and the recommendations made in the current reporting period with respect to those issues. Section 5(a)(4) specifies the inclusion of a summary of matters referred to prosecutive authorities and the prosecutions and convictions which have resulted.

OIG investigations originate from many sources, with almost 70 percent resulting from information provided by NASA or contractor employees. OIG investigators develop and investigate cases having significant financial and programmatic impact. The OIG continues to focus investigative resources on the prevention and detection of fraud and waste in NASA's procurement activities. The investigative caseload remains at a level that requires continual prioritization. Concerted efforts by the OIG to investigate cases with potentially significant impact have produced a consistent record of positive results.

LEGISLATIVE REVIEW

Section 4(a)(2) of the Inspector General Act, as amended, establishes the Inspector General's responsibility to review existing and proposed legislation and regulations relating to the programs and operations of the agency, and to make recommendations concerning their impact on those programs.

The OIG legal staff provides advice and assistance on a variety of legal issues and matters relating to the OIG's review of Agency programs and operations. The OIG Attorney-Advisor acts as the central official for the review and coordination of all legislation, regulations, Freedom of Information Act (FOIA) requests, and congressional and legal matters requiring OIG attention. The OIG legal

staff provides advice and assistance to senior OIG management, staff auditors and investigators, and serves as counsel in administrative litigation in which the OIG is a party.

DEBT COLLECTION

The Senate Report accompanying the Supplemental Appropriations and Rescissions Act of 1980 (PL 96-304) requires Inspectors General to report amounts due the agency, and amounts overdue and written off as uncollectible.

NASA's Financial Management Division provides this data each November 15 for the previous fiscal year. For the period which ended September 30, 1994: the receivables due from the public totaled \$11,782,396, of which \$761,062 are delinquent; and the amount written off as uncollectible was \$60,147.

ADMINISTRATION

Sections 6(a)(6) and (7) of the Inspector General Act, as amended, delineate the Inspector General's personnel management authority, subject to the provisions of Title 5, United States Code. Section 6(a)(8) provides the Inspector General authority to enter into contracts and other arrangements for audits, studies, analyses and other services with public agencies and with private persons, and to make payments as may be necessary to carry out the provisions of this Act. The Inspector General Act Amendments of 1988 provide a separate appropriation account for each OIG.

The OIG's internal administrative and support operations are directed and managed by the Director, Resources Management Division (RMD), who advises the IG and all other OIG managers and staff on administrative, budget, personnel, management, inspection and evaluation matters, and oversees OIG adherence to management policies. Under the Director's guidance, the OIG exercises full, autonomous personnel and budget authority. The RMD provides OIG employees with technical and administrative support by coordinating and acquiring state-of-the-art electronic data processing and office automation equipment and capabilities.

COOPERATION WITH MANAGEMENT

The OIG maintained a balance between preserving its independence while forging a cooperative working relationship with NASA management for the audits conducted of Agency programs and operations. To the extent appropriate and permitted by law, management has been apprised of significant investigative matters.

We recognize that for maximum effectiveness and benefit, the OIG must work in partnership with management. As such, we are reexamining our procedures and processes to become more collaborative as we work with NASA management. A recent initiative is our emphasis on using new audit products such as management letters. These early warning letters provide management, on a real time basis, with emerging issues so that early corrective action can be taken.

The OIG continues to examine ways to enhance methods of operation while implementing the principles of the OIG's vision statement. Following are examples of OIG actions during this reporting period which demonstrate our commitment to working harmoniously with NASA management.

- Accounting System Development. The OIG continues to work with NASA management to plan and develop an Integrated Financial Management Information System (IFMIS). In June, we attended a conference to work with the IFMIS project team in reengineering the work processes that will result in selection of a new system. In September, we issued a discussion draft audit report that advised IFMIS management of several areas for improvement in developing the new system. The OIG plans to work with management throughout the system life cycle.
- Civil Service Work Force Reporting. The OIG invited managers from a Headquarters institutional program office to attend our audit planning conference for that program area. At this conference, managers expressed their concerns with the civil service work force reporting systems and requested a review of this area. According to the

managers, information provided by these systems was confusing and frequently conflicted with reports produced by other systems and sources. Based on these concerns and our preliminary review of this area, the OIG opened an assignment to determine if information systems properly budget, track, and report civil service labor costs at selected Centers.

- Computer Hacking. Based on a hacker's attempts to access a variety of computer systems at one NASA Center, and at the urging of the local OIG, management agreed to develop parallel programs within systems. These will allow a hacker to think he/she is undetected and will give the OIG and Center computer security personnel time to trace the source of a hacker attempt. An OIG investigator is working with local computer security staff to ensure that parallel systems are created, used, and providing the desired results.
- Contract Administration Improvement. As a result of follow-up activity of an audit of a former NASA grantee, we informed NASA procurement and program management of several matters requiring closer oversight. These included contractual labor charges and proposed/actual management travel costs. NASA management representatives contacted the local OIG office to obtain more specific details and agreed to more closely scrutinize the issues raised by the OIG.
- Contractor Oversight. At one location, the OIG meets regularly with NASA management to improve contractor oversight. We jointly identify high risk areas and work to focus review efforts on these areas to make optimum use of limited resources in both the OIG and the Agency. We also improve coordination of outside reviews to minimize duplication and to focus such reviews in areas of management's interest.
- Danger to Public Health and Safety. During an investigation, the OIG identified defects in high pressure steam equipment. We coordinated with the Center's Office of Chief Counsel and safety managers to initiate removal of all potentially defective equipment from the Center's utility tunnels and to promote worker safety.
- Facility Charging Policy. Headquarters managers asked the OIG to review a concept paper for recovering from non-NASA users the cost of using NASA facilities. OIG auditors at Headquarters and three field offices evaluated the proposal and suggested areas for further study and clarification.
- Lease Cost Savings. At one Center, NASA contractors were negotiating with third parties long-term lease arrangements that may not be advantageous to the Government. Due to downsizing activities, space that the contractors could use is becoming available at the Center. The OIG estimated that up to \$6.4 million could be saved if one contractor uses office space that will soon be available at the Center. An additional \$3.9 million could be saved by having another contractor return to the Center by October 1996. The OIG suggested the Center ensure that contractors consider short-term rather than long-term leases and take advantage of available on-Center office space. The Center agreed to pursue with its contractors shorter lease periods and earlier lease termination rights to take advantage of available on-Center space.
- Methodology Development. The OIG assisted a Center official in developing a methodology to identify sensitive technology and to afford it an appropriate level of protection. The official concurred in an OIG recommendation to add OIG personnel to a team assigned the responsibility to identify sensitive technologies.
- Novation Agreements. The Chief Counsel at one Center instituted a policy that, as part of the legal review of novation agreements submitted to his office, comments will be solicited from the OIG. The OIG reviewed files to determine if there were ongoing investigations or audits which could affect the novation proposal.
- Property Control Improvements. The OIG worked with the financial management staff and other personnel at a Center to improve property accounting and internal controls. For example, the OIG assisted Center personnel to identify and place a fair market value on equipment owned and leased for a super computer that was worth approximately \$20 million. This ensured that the financial statements accurately reflected the value of the property owned and leased, liabilities due, and improved controls over this equipment. The OIG also participated in a meeting with Center personnel that resulted in the reclassification of approximately

\$31 million of program stock to inactive materials and equipment which made it available for use NASA-wide.

- Property Management at NASA Headquarters. Following a request for an investigation of the loss of certain property at NASA Headquarters, the OIG not only conducted the investigation but also studied the property loss rate and property management system there. Issues addressed involved accountability, tracking, and reporting. An OIG study report was issued and is being incorporated into management's ongoing effort to effectively control property and reduce the current loss rate at Headquarters. Property management and loss rate have been issues of significant interest to NASA officials in recent months. OIG cooperation in this endeavor continues.
- SATAN Software. Headquarters security officials advised the OIG that a Center employee had an advance copy of SATAN software which was purported to be able to identify information system vulnerabilities and make these known to computer hackers. The employee refused to provide the software to the Agency, stating that its creator had provided it only to him and it was not available for public use. The OIG met with the employee and manager. A settlement was negotiated whereby the employee agreed to test the software on the Center's computer systems and provide any findings to NASA. The employee also agreed to provide a copy of the package to NASA once the software was released for public distribution.
- Space Station Audit Effort. The OIG provided the Space Station Program Director and Program Manager with assessments during quarterly briefings of ongoing program audits. We also discussed our planned FY 1996 program audits with the program manager, who identified the planned audits that would be of the most immediate benefit. At his invitation, we observed the program's baseline surveillance review of the prime contractor's performance measurement system. During the review, we provided our observations to program representatives. These included: (1) the contractor was using an unacceptable technique for determining earned value, (2) some of the contractor's cost account managers did not understand the use of management reserve, and (3) the contractor's work packages did not agree with the system description. Program representatives agreed with our observations and instructed the contractor to take appropriate corrective actions.
- Telecommunications Computer System. During an investigation, the OIG worked with management to protect a Center's multi-million dollar telecommunications system. For several years, contractor employees had misappropriated time, NASA equipment, and materials to pirate, develop, manufacture, and market another contractor's proprietary software for their private outside business interest. Close coordination with management and the Center's Office of Chief Counsel resulted in preserving the integrity of the system and avoiding contract recompitation costs.
- Time and Attendance Data System (TADS). Manipulation of the TADS at one Center caused a Center employee not to get paid for a 2-week period. The OIG identified a lack of integrity by TADS data entry personnel and a lack of managerial control and oversight. Procedures were ignored and system passwords were inappropriately shared. Through an administrative referral and meetings with Center managers, the environment has been corrected to prevent reoccurrence.
- Vulnerability Study. Following an investigation, OIG and NASA Center employees met to determine how a bribery scheme was perpetrated and what steps could be taken to lessen the vulnerability to similar activity in the future. Following this, Center managers brought the situation to the attention of all employees in the affected directorate, discussed the vulnerabilities at a regular management council meeting, published the incident in a newsletter, and informed contractor managers. The Center also agreed to institute periodic random audits of procurements in the directorate.

Reporting Requirements

The Inspector General Act of 1978, as amended, requires the Inspector General to keep the Administrator and Congress fully and currently informed about problems and deficiencies in NASA's operations and the necessity for corrective action. In addition, the Act specifies that semiannual reports will be provided to the Administrator by April 30 and October 31, and to the Congress 30 days later. The Administrator may transmit comments to Congress along with the report, but may not change any part of the report.

The table below cross-references this report to the reporting requirements prescribed in the Inspector General Act of 1978, as amended by Public Law 100-504.

<u>Act Citation and Requirement</u>	<u>Page(s)</u>
Section 4(a)(2) Review of Legislation and Regulations	34
Section 5(a)(1) Significant Problems, Abuses and Deficiencies	11-17
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses and Deficiencies	11-17
Section 5(a)(3) Prior Recommendations Not Yet Implemented	22-26
Section 5(a)(4) Matters Referred to Prosecutive Authorities	2
Section 5(a)(5) Summary of Instances Where Information and 6(b)(2) Was Unreasonably Refused or Not Provided	None
Section 5(a)(6) List of OIG Audit Reports	37
Section 5(a)(7) Summary of Each Particularly Significant Report	11-17
Section 5(a)(8) Statistical Table on Management Decisions on Questioned Costs	20
Section 5(a)(9) Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	20
Section 5(a)(10) Summary of Each Audit Over 6 Months Old For Which No Management Decision Has Been Made	None
Section 5(a)(11) Significant Revised Management Decisions	19
Section 5(a)(12) Significant Management Decisions With Which the Inspector General Disagrees	19

Chapter I - Significant Audit and Investigative Matters

OIG AUDIT AND INVESTIGATIVE MATTERS

CHIEF INFORMATION OFFICER

CHIEF FINANCIAL OFFICER/
COMPTROLLER

INCREASED MANAGEMENT CONTROLS NEEDED OVER CONSOLIDATING ADP OPERATIONS

An OIG survey of the Office of Space Flight's (OSF) consolidation of automatic data processing (ADP) operations determined that the project is within established cost and schedule guidelines and that successful implementation should result in significant cost savings. However, we believe that increased management controls and the development of a plan to monitor the consolidation effort would improve overall project efficiencies. We recommended that: (1) the OSF establish management controls to ensure continued funding authority for the new consolidated facility; (2) the OSF implement controls to prevent reemergence of site-unique systems; and (3) the NASA Chief Information Officer periodically review progress of the consolidation effort and weigh the benefits for other NASA program codes in pursuit of a similar concept. NASA management concurred with the recommendations and initiated corrective actions.

UNQUALIFIED OPINION ON FY 1994 FINANCIAL STATEMENTS

The CFO Act of 1990 requires NASA to prepare annual financial statements. An OIG audit of NASA's FY 1994 financial statements determined that they present fairly, in all material respects, the financial position of the Agency at September 30, 1994 (and the results of its operations and cash flows for the year then ended) in conformity with the comprehensive basis of accounting described in their footnote on accounting policies and operations. Regarding the Agency's internal control structure and compliance with laws and regulations, we determined that NASA's accounting system does not meet requirements of the CFO Act or OMB because NASA does not maintain a single, integrated accounting system. NASA identified its financial accounting system as a high risk area in the Agency's FY 1994 FMFIA report.

PROGRAM AND PROJECT COSTS EXCLUDE CIVIL SERVICE SALARIES; \$1 BILLION UNDERSTATED ANNUALLY

During an audit of Space Station Program staffing, we discovered that the program's life cycle costs included expenses for support contractor personnel but generally excluded related salary costs for civil service personnel. We expanded the scope of our audit and found that it is NASA's policy to exclude civil service salary costs from the total life cycle costs of all NASA programs and projects. As a result, NASA program and project costs are understated by about \$1 billion annually. Further, without data on civil service costs, program

managers do not know the actual life cycle costs of their programs. We also identified one Center that was not complying with Agency requirements to allocate multi-program support personnel costs to benefitting programs. Consequently, an estimated \$60 million in civil service salaries was not charged against applicable NASA programs. We recommended that the NASA CFO revise Agency policy to include civil service salary costs in the life cycle cost of programs and projects. NASA management concurred with our recommendation and initiated corrective actions.

PROCUREMENT

INADEQUATE SPECIFICATIONS AND FUNDING FOR HYPERBARIC CHAMBER

A NASA contractor is constructing a neutral buoyancy laboratory that will be used to train astronauts in assembling Space Station components. One piece of required safety equipment is a hyperbaric (pressurized) chamber. An OIG audit found that a Center based its negotiating position for the procurement of this chamber on an inadequate and inaccurate cost estimate. Additionally, the contract specifications were vague and subject to bidders' interpretation. This occurred because, lacking a NASA hyperbaric expert, the Center's procurement officials tasked the medical user community with writing specifications and providing cost estimates. According to a Navy hyperbaric chamber expert, a chamber procured from the bids received may not meet the user's needs unless costly change orders are approved. While the contract limited the contractor's liability to \$400,000, the Navy expert estimated a chamber built in accordance with the specifications would cost approximately \$1.5 million. NASA management agreed with our recommendation, met with Center legal representatives and the medical user community, and reached an agreement as to the best chamber obtainable with available funding.

MANAGEMENT SYSTEMS & FACILITIES

NASA RESTRUCTURING MAKES NEED FOR SELECTED CoF PROJECTS QUESTIONABLE

An OIG audit of the potential impact of NASA's restructuring efforts on its FY 1996 Construction of Facilities (CoF) budget showed that some projects may no longer be needed. While most FY 1994 through FY 1996 budgeted CoF projects should be unaffected by the pending decisions on the changing roles and missions of NASA's Centers, two Centers have three projects that may be affected. If these projects are completed and NASA implements its pending restructuring decisions, about \$13 million may be spent unnecessarily. We recommended that the Office of Management Systems and Facilities: (1) avoid potentially unnecessary expenditures by suspending actions and spending on the three projects until it is clear they are critical to achieving the Agency's programs, and (2) monitor all other planned and active CoF projects in light of pending decisions on NASA's restructuring. NASA management concurred and initiated corrective actions.

ABOUT \$528 MILLION TO BE SAVED BY NOT RELOCATING NOZZLE OPERATIONS

NASA planned to transition nozzle manufacturing and refurbishment operations for the Space Shuttle's Reusable Solid Rocket Motor from Utah to Mississippi. An OIG audit disclosed that this relocation would be extremely costly and with little or no appreciable programmatic benefit. We determined that the Mississippi facility would have duplicated nozzle manufacturing operations currently performed in Utah, but at an additional cost of about \$528 million over the remaining life of the shuttle program [expected to be 2012]. NASA management concurred with the OIG's recommendation and reevaluated the need to relocate the nozzle manufacturing and refurbishment operations to the Mississippi facility. This resulted in NASA's decision to cancel the planned relocation.

FASTENER SUPPLIER AND OFFICIALS CHARGED; EMPLOYEES ENTER INTO PRETRIAL DIVERSION AGREEMENTS

Following a joint investigation by the OIG and Defense Criminal Investigative Service (DCIS), a Grand Jury returned an indictment against a fastener supplier and three of its officials. The indictment charges them with wire fraud, mail fraud, conspiracy, and making false statements in connection with their roles in selling substandard fasteners to NASA and other Government agencies and contractors. The investigation disclosed that NASA uses the fasteners in the Shuttle program. The DOD uses the fasteners in helicopters, other aircraft, and ships. The indictment alleges that the defendants falsely certified that the fasteners they sold to agencies and contractors met all applicable specifications. Prior to the indictment, four employees of the company entered into pretrial diversion agreements for their roles in the matter. Resolution of the charges is pending.

TIME AND ATTENDANCE ABUSE CORRECTED

An OIG investigation, conducted with the assistance of NASA management and contractor employees, determined that 11 contractor employees were abusing time and attendance. It was disclosed that contractor employees were not working full days and frequently left their duty posts without taking leave. They completed their timecards claiming that they worked full days. The contractor withheld wages totaling over \$3,000 from the 11 employees and suspended 8 of the employees without pay. It also demoted and reduced the pay of a supervisor. Suspensions and demotions resulted in the Agency avoiding paying over \$15,000 in salaries to the employees.

CONTRACTOR EMPLOYEE CHARGED WITH THEFT

As a result of an OIG investigation, a former contractor employee was charged in local court with theft of a credit card that belonged to his employer. The investigation disclosed that the employee misused the credit card to make personal purchases totaling over \$2,500. The charges were then billed to his employer as expenses under a NASA contract. Resolution of the charges is pending.

\$85,000 IN MOVE COSTS RECOVERED

In response to an OIG recommendation, a NASA field Center obtained reimbursement in the amount of \$85,000 from a contractor for move costs it had not approved. The reimbursement followed an OIG investigation that disclosed the contractor billed the Agency \$85,000 to pay the anticipated costs of a move to a different building. The investigation disclosed that the Agency contracting officer disapproved the charges in advance.

EMPLOYEE CHARGED WITH DRUG OFFENSES

The OIG assisted another Federal agency and local

law enforcement officers in investigating alleged drug dealing at a NASA Center by one of its employees. The investigation disclosed that the employee was involved in distributing and selling marijuana at the Center. The employee was charged and found guilty on three counts of delivery of marijuana. He was fined \$900, ordered to pay \$1,000 in court fees, ordered to attend mandatory drug rehabilitation classes, and to submit to random drug testing. He was also ordered to perform 160 hours of community service.

FASTENER COMPANY AND ONE OFFICER ENTER GUILTY PLEAS OF MAIL FRAUD

Following an investigation by a multiagency task force, a company and its vice president of sales each entered guilty pleas to charges of mail fraud which related to their roles in selling substandard fasteners to a large aerospace contractor. The contractor acquired the fasteners for use on contracts with NASA and other agencies. They were charged in a criminal information with overriding quality control rejections of aerospace fasteners and falsely representing that the fasteners met contract specifications. Sentencing is pending.

AERONAUTICS

SETTLEMENT RESULTS IN REPAYMENT OF OVER \$141,000

As a result of an OIG investigation, a settlement agreement was concluded with a contractor. Under the terms of the agreement, the contractor paid the Government \$107,236 and agreed to forego claims to \$13,387 under a contract with a NASA Center. The company also agreed to pay a *qui tam* relator \$20,961 in fees and costs. The agreement resolved claims that the company had improperly certified that it was a small business and had obtained Government contracts on the basis of the improper claims.

Under the terms of a separate agreement, an accounting firm paid \$85,000 to the Government to resolve the issues arising out of the actions by its employees to alter the financial records of the company. The records were used to falsely portray the company as a small business. The *qui tam* relator was paid \$21,800 of the amount paid by the accounting firm.

CONTRACTOR EMPLOYEE CHARGED WITH THEFT

Following an OIG investigation, which was conducted with the assistance of a local police department, a contractor employee was arrested and charged with theft of property. The charges were made under state statutes after the investigation disclosed that the contractor employee had stolen telephones and electronic equipment from a NASA Center. Resolution of the charges is pending.

FORMER EMPLOYEE PLEADS GUILTY TO CONFLICT OF INTEREST

As a result of a joint investigation by the OIG and the FBI, a former NASA employee plead guilty to a conflict of interest charge. A one-count criminal information charged the employee with directing contracts to a company in which the employee had a financial interest while employed at a Center. During the investigation, the employee retired from NASA employment. Sentencing is pending.

CONTRACTOR PLEADS GUILTY TO CHARGE OF COPYRIGHT INFRINGEMENT

Following a joint investigation by the OIG and the FBI, a contractor plead guilty to a copyright infringement charge. The employee was charged in a one-count criminal information with reproducing and distributing copies of copyrighted computer software for commercial advantage and financial gain. The employee was a supplier of software to a NASA Center. Sentencing is pending.

SPACE SCIENCE

UNREASONABLE EARLY RETIREMENT BENEFITS AT A NASA-FUNDED FACILITY

A major NASA contractor instituted an early retirement option (ERO) plan that provides up to 3 years of benefits to selected early retirees. An audit of this plan revealed that the benefits offered were unreasonable when compared to early retirement plans offered by similar facilities and to guidance contained in an OMB circular. This appears to have been caused by the lack of clear understanding and formal approval of the ERO plan by NASA. Based on our review of eight individuals drawing early retirement benefits during FYs 1991 and 1992, we estimated that NASA's share of the ERO costs was about

\$1,425,000, or an average of \$178,000 per retiree. In addition, seven of the eight retirees were rehired as consultants and/or "on call" employees, at an additional cost of about \$550,000, while they received ERO benefits. We recommended that NASA management question the allowability of the ERO costs pending formal NASA approval of a plan that contains a purpose consistent with OMB guidance and provides a reasonable early retirement benefits package. The audit also suggested that the approved ERO plan include time limits for election and a rehire policy. NASA management concurred and will initiate actions to work with the contractor to develop an acceptable ERO plan.

TRAVEL COSTS INAPPROPRIATELY CHARGED TO NASA

An audit of travel policies, procedures, and practices of a NASA contractor showed that although its policies and procedures were generally adequate, the contractor did not follow or consistently apply them. As a result, the contractor inappropriately charged NASA with travel costs of about \$660,000. We also identified over \$450,000 of cost savings opportunities. Through improved procedures and their enforcement, we estimate future cost savings of approximately \$3,100,000 through the end of NASA's current contract (September 1998) are attainable. Before we issued the report in final, the contractor paid \$415,000 to NASA to offset inappropriate travel costs charged during the period audited. An additional reimbursement will be forthcoming because the conditions reported in the audit report continued beyond the audited period. NASA management concurred with the report's seven recommendations for improving travel operations, promoting cost savings opportunities, and recovering travel costs inappropriately charged.

NASA FUNDS APPEAR TO BE AUGMENTING CONSTRUCTION OF NON-NASA FACILITY

The Distributed Active Archive Centers (DAACs) are a component of the Earth Observing System (EOS) Data and Information System (EOSDIS). NASA established nine DAACs to process, archive, and distribute EOS and related data to the user community. The DAACs are located at institutions or facilities that have expertise and ongoing research in specific earth science disciplines. An OIG audit showed that NASA funds may have been used to augment construction of a DAAC facility addition at another Government agency's site. However, Congressional intent prohibits using NASA funds to finance the construction of non-NASA facilities. The audit concluded that NASA's adherence to restrictions expressed in the legislative history could result in potential cost recoveries of \$600,000 and potential cost avoidances of \$4.2 million. We recommended that NASA management: (1) recover any funds expended to augment construction of the facility, (2) reverse its decision to provide \$4.2 million to augment construction of the facility addition, and (3) notify management at the DAAC that NASA funds of \$4.2 million are no longer available for construction of the facility addition. NASA management nonconcurred with the report's recommendations, stating that the funds were used for facility outfitting, which is a permitted use of NASA funds, and not for construction. Subsequently, in July 1995, the NASA Administrator asked the House Committee on Science to clarify language in the FY 1994 Appropriations Conference Report regarding the use of NASA funds for "construction" of the DAAC facility. The OIG reaffirmed its position in the final report and requested that NASA management reconsider its position.

EOS-GENERATED SPACECRAFT ANCILLARY DATA SHOULD BE ARCHIVED

The EOS Data Operation System (EDOS) will provide ground services for data capture, processing, distribution, and data archive for the EOS program. One component of EDOS is the Data Production Facility, which will provide production processing and data archive operations. An audit of the facility determined that there were no apparent plans to archive all EOS-generated spacecraft ancillary data. When data is lost or damaged and must be recovered from the backup archive, the retrieved data may be of limited use if spacecraft ancillary data is not available for interpretation of the EOS science data. Management concurred with our recommendation that all EOS-generated spacecraft ancillary data be backed up at a secure off-site location.

STRENGTHENED CONTROLS NEEDED OVER EOSDIS CORE SYSTEM SUBCONTRACT

Central to the EOS program will be a series of space-based observatories which will carry a variety of scientific instruments to collect data about the earth's atmosphere, biosphere, oceans, and lake surfaces. Data collected from these instruments will be processed and distributed to the scientific community through EOSDIS. NASA awarded a \$766 million cost-plus-award-fee contract to design, develop, integrate, maintain, and operate the EOSDIS core system. As part of this contract, the prime contractor awarded six major subcontracts with a total value of approximately \$320 million. An OIG audit of subcontract management showed that the EOSDIS core system prime contractor is not monitoring subcontracts on a regular basis or providing oversight to critical subcontractors. The audit identified four areas requiring NASA management's attention: (1) subcontractors' award fees for cost control have been inconsistent, (2) subcontractors' performance for various events has not been properly documented, (3) subcontractor costs were billed in excess of funding limitations, and (4) performance measurement system reviews of subcontractors were not being performed. Six recommendations were made to NASA

management which, if implemented, will result in improved controls over subcontract management on the contract. NASA management generally concurred with the recommendations and planned corrective actions.

REPAYMENT OF \$200,000 RESULTS FROM DEFECTIVE PRICING

A subcontractor agreed to a civil settlement and paid the Government \$200,000 to resolve claims that it had defectively priced a subcontract on a telerobotics program. The settlement agreement was negotiated by an Assistant United States Attorney (AUSA) after an OIG investigation corroborated the claims of a *qui tam* relator that the subcontract was defectively priced. The *qui tam* relator received \$35,000 of the settlement amount.

FASTENER COMPANY AND ITS PRESIDENT CHARGED

Following a joint investigation by the OIG, DCIS, FBI, Department of Transportation (DOT) OIG, Naval Criminal Investigative Service (NCIS), and the Air Force Office of Special Investigations (AFOSI), a Federal Grand Jury returned an indictment against a fastener supplier and its president. The indictment charges the defendants with four counts of mail fraud. It alleges that they submitted false certifications for fasteners they sold to Government contractors met all applicable specifications. It alleges that the fasteners were commercial grade fasteners that did not meet the stringent requirements set forth for military and aerospace standard fasteners ordered by the contractors. Resolution of the charges is pending.

OVER \$1.2 MILLION OF LEASE COSTS RECOVERED

A proactive OIG investigation, conducted with the assistance of the DCAA, disclosed that a contractor and its three owners overcharged building lease costs to a NASA Center. The investigation determined that the contractor received several months of free rent on a building and a build-out allowance of \$276,000. Its three owners also received ownership equity in the building. The investigation disclosed that the contractor did not credit the Agency the income derived from the ownership arrangement, the value of the free rent, or the build-out allowance. The United States Attorney's Office declined both civil and criminal prosecution in favor of administrative resolution of the matter. As a result of the findings in the investigation, DCAA negotiated an agreement with the contractor who repaid the Government \$1,208,900 to settle all lease-related issues.

CRIMINAL PLEA ENTERED AND CIVIL SETTLEMENT SIGNED

Following a joint investigation by the OIG and the National Science Foundation OIG, a settlement agreement was concluded with a research and development contractor. Under the terms of the agreement, the contractor pled guilty to one count of filing false statements. The contractor admitted to falsely certifying that it had not submitted equivalent Small Business Innovative Research Program proposals to other agencies. The company was placed on probation for 5 years and ordered to perform 100 hours of community service.

The agreement with the company also contained civil provisions under which it paid the Government \$115,000 to cover the cost of the investigation and the benefits derived from the false statements. It also agreed to a voluntarily exclusion which bars it from receiving or participating in Small Business Innovation Research contracts, grants, or other awards for 1 year.

External Audit Reports Referred to NASA Management

The OIG review of significant matters reported by the DCAA are forwarded to NASA management for appropriate resolution and OIG followup.

SPACE FLIGHT

INDIRECT COSTS OF \$4.5 MILLION QUESTIONED

A DCAA review of a contractor's FY 1990 and 1991 proposed indirect cost rates questioned \$4,525,963 of indirect expenses. Of this amount, NASA's share is approximately \$410,100. The questioned costs were primarily in the areas of other indirect costs, corporate allocations, information services allocations, leases, intercompany transfers, travel and relocation, and fringe benefits. In DCAA's opinion, the proposals included significant costs that did not comply with the Federal Acquisition Regulation (FAR) and cost accounting standards. NASA management is working with DOD's Divisional Administrative Contracting Officer to finalize these indirect cost rates.

INDIRECT COSTS OF \$1.9 MILLION QUESTIONED

DCAA auditors questioned \$1,863,520 of indirect costs related to a NASA contractor's FY 1990 and 1991 proposed indirect cost rates. The questioned costs were primarily in the areas of information services allocations, intercompany transfers, corporate allocations, travel and relocation, and other indirect expenses. Approximately 99 percent of the contractor's effort is attributable to NASA programs. NASA management is working with DOD's Divisional Administrative Contracting Officer to finalize these indirect cost rates.

\$24 MILLION OF OVERTIME PREMIUMS QUESTIONED

DCAA questioned over \$23.7 million in contractor overtime premium costs billed during FY 1991 through FY 1993. Of this amount, NASA's share is approximately \$5 million. DCAA found that the contractor incurred and billed to the Government significant overtime premium costs that did not comply with the FAR, cost accounting standards, and the terms and conditions of its contracts. NASA management is working with DOD's Divisional Administrative Contracting Officer to resolve the costs questioned and the standards noncompliance issues.

AERONAUTICS

\$958,000 OF INCURRED COSTS QUESTIONED

DCAA auditors reviewed calendar year (CY) 1991 and 1992 incurred costs billed and questioned about \$538,000 and \$420,000 for the respective years. Amounts for meeting expenses, professional fees, relocation costs, and vehicle leases were questioned because the costs were either not allowable according to the FAR or the contractor could not provide documentation to determine the reasonableness of the costs. NASA management expects to arrive at a final determination on these costs by October 31, 1995.

Management Actions on OIG Audit Reports

REVISED DECISIONS

Section 5(a)(11) of the Inspector General Act, as amended, requires a description and explanation of the reasons for any significant revised management decision made during the reporting period.

During this reporting period there were no such instances.

DISAGREEMENT ON PROPOSED ACTIONS

Section 5(a)(12) of the Inspector General Act, as amended, requires information concerning any significant management decisions with which the Inspector General is in disagreement.

During this reporting period there were no such instances.

STATUS OF MANAGEMENT DECISIONS

Sections 5(a)(8) and (9) of the Inspector General Act, as amended, require statistical tables on the status of management decisions on OIG audit reports involving questioned costs or recommendations that funds be put to better use.

The following two tables summarize the status of management decisions as of September 30, 1995.

**OIG AUDITS WITH
QUESTIONED COSTS**

Audit Reports	Number of Audit Reports	Total Questioned Costs
No management decision was made by beginning of period	0	0
Issued during period	4	\$2,714,146
Needing management decision during period	4	\$2,714,146
Management decisions made during period:	3	\$1,289,146
--amounts disallowed	2	\$689,146
--amounts not disallowed	1	\$600,000
No management decision at end of period:	1	\$1,425,000
--less than 6 months old	1	\$1,425,000
--more than 6 months old	0	0

**OIG AUDITS WITH
RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE**

Audit Reports	Number of Audit Reports	Dollar Value of Recommendations
No management decision was made by beginning of period	2	\$6,640,000
Issued during period	5	\$548,526,800
Needing management decision during period	7	\$555,166,800
Management decisions made during period:	3	\$532,636,800
--amounts management agreed to be put to better use	2	\$528,436,800
-based on proposed management action	2	\$528,436,800
-based on proposed legislative action	0	0
--amounts not agreed to be put to better use	1	\$4,200,000
No management decision at end of period:	4	\$22,530,000
--less than 6 months old	2	\$15,890,000
--more than 6 months old	2	\$6,640,000

[Note: This page in the original document contains a photograph. For size of transmission purposes, this page is not included in this electronic copy.]

Chapter II - Significant Matters Disclosed in Previous

AUDIT RECOMMENDATIONS DISCLOSED IN PREVIOUS SEMIANNUAL REPORTS FOR WHICH CORRECTIVE ACTIONS ARE STILL IN PROCESS

Section 5(a)(3) of the Inspector General Act, as amended, requires an identification of audit recommendations disclosed in previous semiannual reports on which corrective actions are still in process.

Following are brief summaries of significant OIG and DCAA audits reported in prior semiannual reports for which final management actions have not been completed and closed out.

HUMAN RESOURCES & EDUCATION

APPROPRIATED FUNDS SUBSIDIZE EMPLOYEE MORALE ACTIVITIES

NASA sanctions certain activities at various field locations to contribute to the morale and welfare of Agency personnel. An OIG audit at one NASA facility showed that appropriated funds were improperly used to subsidize morale activities. Specifically, this facility's morale activity was providing housing services to visiting NASA employees who were attending training classes and charging students excessive lodging rates. This earned the morale activity association profits of \$77,000 that subsidized an employee cafeteria. Since student housing costs were paid for by appropriated training funds, the practice resulted in reduced training opportunities for NASA employees. During this reporting period, NASA

management continued to negotiate a new rate for housing services with the morale activity association.

MANAGEMENT SYSTEMS & FACILITIES

SAVINGS POSSIBLE THROUGH IMPROVED AIRCRAFT MANAGEMENT

The OIG participated in an audit of Federal civilian agency use of Government aircraft sponsored by the President's Council on Integrity and Efficiency (PCIE). We identified several areas where NASA could improve the management and control of its aircraft fleet: (1) using commercial aircraft to transport personnel in lieu of its own aircraft would save NASA \$5.8 million annually; (2) additional savings would result from selling seven of the eight aircraft which had a market value of about \$10.6 million and had been used exclusively for transporting personnel; and (3) by purchasing one aircraft that is being leased, another \$1.75 million could be saved. We made 19 recommendations for tighter controls over transporting personnel on NASA aircraft, performance of cost-effectiveness studies to justify the retention of aircraft assets, and reevaluation of aircraft lease versus purchase options. Management fully or partially concurred with all recommendations. Of the 19 recommendations, four were closed upon report issuance, one is under review, and the remaining 14 have corrective actions still in progress.

**ACCOUNTING CHANGE
INCREASED GOVERNMENT
COSTS BY \$3.3 MILLION**

At the request of the NASA contracting officer, DCAA evaluated the cost impact of a change to a major contractor's accounting procedures. The change involved combining the overhead cost pools of two separate divisions without prior agreement with the Government administrative contracting officer. The auditors concluded that the change increased the costs chargeable to the Government by \$1,453,089 for FY 1989 to FY 1991 and would increase costs by \$1,812,393 in FY 1992 to FY 1994. Final negotiations have been delayed because of higher priority negotiations. Resolution is expected in October 1995.

**CONTRACTOR COSTS OVERSTATED
BY OVER \$918,000**

A review of the incurred costs claimed by a NASA contractor caused DCAA auditors to question a total of \$918,267. Of the total amount, employee payroll and fringe benefit costs of \$807,864 were considered misclassified and, when properly classified, were unallowable according to the company's disclosure statement. In addition, \$110,403 of bid and proposal costs claimed by the contractor were considered misclassified and therefore unallowable. These recommendations remain open awaiting negotiation and settlement at the contractor's corporate level. Action officials anticipate resolution by December 1995.

**\$2 MILLION OF
CONTRACTOR EXPENSES
NOT PROPERLY CLASSIFIED**

DCAA auditors examined expenses claimed by three different NASA contractors to establish direct and indirect expense rates. A total of \$1,962,200 was questioned by the auditors, primarily because the expenses were considered misclassified. The

final agreed-upon rates, after reclassification of the expenses by the contractors, will be used to determine costs to close out the contracts. Issues that were resolved with two contractors resulted in \$1,704,787 of the \$1,795,720 questioned being sustained by contracting officers. During this period, the DCAA was unable to complete the audit of the incurred costs for FY 1992 because the contractor was unable to locate the general ledger or accounting records. As a result, there is no projected completion date for resolution.

**REIMBURSEMENTS FOR
SHUTTLE USE DO NOT
RECOVER BASIC COSTS**

An audit of amounts paid to NASA for non-Government use of the Shuttle disclosed that reimbursement rates did not recover significant "out-of-pocket" expenses associated with Shuttle launches. A reimbursement rate was set at \$130 million per flight, based on 12 flights per year. Subsequent flight estimates dropped to eight or nine per year, but reimbursement rates were not adjusted accordingly. Auditors noted that fewer flights would increase standard charges to \$139 million under the current "out-of-pocket" pricing policy, and to \$332 million under full-cost pricing policy. In total, a potential shortfall in reimbursements from non-Government users would be between \$10.8 million and \$242.4 million below NASA's costs, depending upon the pricing policy applied. We recommended that NASA revise the standard price charged to non-Government users of the Shuttle to recover all costs. NASA agreed to take action to ensure the most current cost-per-flight information is used and has developed a proposed Shuttle pricing policy that has been presented to the Administrator, OMB, and the Congress. Meetings with international partners raised questions which will require a policy revision. The anticipated closure date is early 1996.

OVER \$877,000 OF BID AND PROPOSAL COSTS QUESTIONED

DCAA auditors questioned \$877,215 of bid and proposal costs claimed by a contractor because the costs exceeded the bid and proposal ceiling as provided for in the FAR. During this period, the contractor submitted additional data to the contracting officer. Resolution is expected in November 1995.

MISCHARGES OF \$3 MILLION TO NASA CONTRACTS

DCAA identified about \$3 million in mischarges resulting from misallocated common support overhead costs to two major NASA contracts. The contractor's allocation process did not comply with cost accounting standards. The DOD Divisional Administrative Contracting Officer received a cost impact statement and will begin negotiations for settlement. The contractor revised its overhead rate structure to prevent future standards violations of this nature.

\$1.5 MILLION OF LEGAL FEES QUESTIONED

DCAA auditors questioned about \$1.5 million in legal fees because the contractor was not in compliance with cost accounting standards. The noncompliance related to the contractor's established practices of recording as allowable costs: (1) all legal fees directly associated with the outcome of determinative matters, and (2) incidental legal fees directly associated with third-party liability matters, regardless of the outcome of the litigation. The DOD Divisional Administrative Contracting Officer is negotiating the disposition of the standards violation with the contractor.

CURTAILING CALIBRATION SERVICES COULD SAVE \$840,000

An OIG audit disclosed that one Center is providing, through an on-site technology transfer office, commercially available calibration services to numerous private companies. The use of Government facilities and equipment to provide commercially available services to private businesses is disfavored and results in misappropriated Federal funds and unnecessary labor costs. Eliminating this work would reduce NASA contract costs between \$640,000 and \$840,000 annually. The audit also determined that Center personnel did not properly approve and authorize the calibration work. We recommended the Center: (1) discontinue providing services commercially available to private companies, and (2) ensure calibration service requests are properly reviewed and approved. NASA management, although nonconcurring with the recommendations, responded that future work requests will be reviewed for commercial availability, and reiterated NASA policy regarding approval of calibration requests. We asked the Center to reconsider its proposed procedural remedies because they did not address the basic deficiencies presented in the report. Subsequently, more responsive proposed remedies were developed. Resolution is expected during FY 1996.

AERONAUTICS

NEARLY \$1.3 MILLION OF CLAIMED DIRECT LABOR AND RELATED COSTS QUESTIONED

DCAA auditors reviewed the direct labor, overhead, and related costs billed by a NASA contractor for CYs 1987 and 1988. The auditors questioned \$1,268,419 of the total \$13.2 million claimed. Most of the questioned costs involved a subcontractor that could not produce auditable documents to support the claimed costs. The contractor submitted additional data which could

require further audit followup. The contracting officer anticipates completing a negotiated settlement by February 1996.

OVER \$9.8 MILLION OF INCURRED COSTS QUESTIONED

DCAA auditors reviewed costs a contractor billed to NASA for reimbursement in FYs 1990 and 1991. They questioned over \$9.8 million of the \$20.7 million claimed, most of which related to a subcontract type (cost plus a percentage of costs) that is prohibited by the FAR. The contracting officer anticipates completing a negotiated settlement by February 1996.

SPACE SCIENCE

\$13.7 MILLION OF UNALLOWABLE AND QUESTIONED COSTS IDENTIFIED

A review of a major contractor for FY 1992 by Defense Contract Management District West (DCMD-West) identified \$13.7 million in unallowable and questioned costs related to operating a NASA facility. These costs were incurred in apparent violation of cost accounting standards and OMB Circular A-21. The OIG presented these issues to NASA management and recommended that the Agency coordinate with the Office of Naval Research (the cognizant Federal agency) to resolve the unallowed and questioned costs. The DCMD-West resolved in the contractor's favor \$12.2 of the \$13.7 million of unallowable and questioned costs. The remaining \$1.5 million relating to cost accounting standards and OMB Circular A-21 issues was referred to the NASA contracting officer for final resolution. Negotiations with the Office of Naval Research and the contractor continued during this period but no date to finalize the results has been set.

MEALS AND REFRESHMENT COSTS OF \$329,000 QUESTIONED

DCAA questioned about \$329,000 of contractor meals and refreshment costs charged either directly or indirectly to NASA in FYs 1991 and 1992. DCAA questioned these costs because: (1) the expenses were determined to be unallowable or unreasonable under requirements of OMB Circular No. A-21, (2) the contractor did not comply with its own policies and procedures, and/or (3) the expenses were not supported by adequate documentation. Further, DCAA found weaknesses in the contractor's accounting system for segregating expenses for meals and refreshments from other expenses as well as segregating unallowable costs from Government billings. The contractor withdrew the \$329,000 charged to NASA while it evaluated the questioned costs. During this reporting period the NASA contracting officer requested additional audits of FYs 1989, 1990, and 1993. When the results of all 5 years' audits are completed, the contracting officer will negotiate the entire package at once. During this reporting period the contractor submitted proposals for the 3 years which the contracting officer is evaluating in preparation for negotiations.

IMPROVED HIRING PRACTICES COULD SAVE OVER \$420,000 EACH YEAR

A review of a major NASA contractor by DCAA identified over \$420,000 in annual savings possible by improving its process of matching temporary secretarial help requirements to the needs of the vacancy filled. DCAA disclosed weaknesses in the contractor's procedures for requesting and placing temporary secretaries. Specifically, there was a lack of job descriptions and analyses of grade levels for the secretaries secured. This resulted in paying more for temporary secretarial support than the jobs required. During this reporting period the contractor implemented corrective actions. NASA management will review the secretarial selection criteria on a quarterly basis and anticipates closure of this matter in October 1996.

**TECHNOLOGY TRANSFER
ACTIVITIES NEED
IMPROVEMENT**

NASA has a major initiative to improve public access to and use of technology developed from Agency programs. To accomplish this, NASA supports and funds six technology transfer centers. An OIG audit of the transfer program disclosed a need to: (1) improve controls over NASA equipment, (2) prevent unauthorized foreign access to technologies developed, and (3) reduce unreasonably high contractor salaries. We estimated salary adjustments would produce \$409,495 in savings to NASA during the contract period. The first two recommendations are closed. Recommendation 3 remains open awaiting final results from DCAA's review of contractor compensation rates. This work was expected to be completed in early October 1995, and NASA plans to complete its actions shortly thereafter.

**MANAGEMENT ACTION NEEDED
TO AVOID PURCHASE OF
EXCESS SPARES**

The EOS program is the centerpiece and largest part of NASA's Mission to Planet Earth program. On one of the five scientific instruments to be flown on the first EOS spacecraft, the contractor proposed a revision to the instrument's initial Spares Program Plan. An OIG audit showed that a contractor-proposed spares plan revision could result in the purchase of \$263,500 in unneeded parts. In addition, vendor-mandated minimum buy requirements and contractor over-buys may result in excess spare parts, thereby offsetting the contractor's expected savings of \$3.6 million. We recommended that NASA: (1) evaluate the proposed plan revision to ensure, to the extent possible, spare parts are procured by the piece part method; (2) analyze the effect of excess spare parts purchases on the contractor's anticipated \$3.6 million in savings; and (3) encourage contractor participation in a coordinated buy program to reduce the impact of vendor-mandated minimum buy requirements. During this reporting period, NASA continued to analyze whether the contractor's anticipated savings of \$3.6 million will occur. We anticipate closure of this recommendation by March 1996.

UPDATES ON SELECTED INVESTIGATIONS REPORTED IN PREVIOUS SEMIANNUAL REPORTS

Following are brief summaries of significant OIG investigations, reported in prior semiannual reports, for which resolution is not complete.

SPACE FLIGHT

INDICTMENTS RETURNED AGAINST 7 INDIVIDUALS AND 7 FIRMS

Following a joint investigation by the NASA OIG, Small Business Administration OIG, FBI, Department of Labor's Office of Racketeering and Pension and Welfare Benefits Administration, U.S. Postal Service, and the Internal Revenue Service, a Federal Grand Jury returned a 13-count indictment against a NASA subcontractor, its owner, the owner's spouse, six related companies, and five other individuals. The indictment charged the defendants with money laundering, false claims, mail fraud, embezzlement, theft from employees' benefits plans, obstruction of a Federal audit, contempt of court, false statements, false claims, conspiracy, and thefts from programs receiving Federal funds. It alleged that they fraudulently billed costs to a NASA prime contractor supporting the Space Shuttle Program. The prime contractor passed the fraudulent costs on to NASA. The Agency suspended those indicted from contracting with the Government pending resolution of the charges.

Following the indictment, the prime contractor cancelled the subcontract and assumed responsibility for the work, resulting in a savings of approximately \$6.5 million over the life of the contract. More than \$760,000 in additional costs were avoided when the prime contractor declined to purchase some equipment being used by the subcontractor.

A superseding indictment was returned against the

same individuals and companies. The 285-count indictment alleged that they conspired to and did present to NASA false claims totaling \$4 million, committed income tax violations, and stole and embezzled assets from a company employee benefit plan.

Four individuals and five companies pled guilty to charges filed against them. One of the individuals was placed on probation for 1 year. Charges against one individual were dropped. Sentencing of the other individuals and the companies is pending. In a separate civil lawsuit in the matter, a judgment in the amount of \$10 million was entered in favor of the Government.

UPDATE: Charges against two companies were dropped. Because the two companies were determined to be inseparable from one of the individuals in this case, the court ordered that the companies be liquidated. A trustee was appointed by the court to oversee liquidation of the two companies and the other five companies charged in this matter. Sentencing of the four individuals and five companies that have entered pleas has been deferred pending resolution of the charges against the two other individuals.

CRIMINAL INFORMATION FILED AGAINST 9 INDIVIDUALS AND 1 CORPORATION

A joint investigation by the FBI, NASA OIG, and DCIS resulted in filing of six criminal informations that charged nine individuals and one corporation with Federal kickback and bribery offenses. Two of the individuals were NASA employees. A company that employed two of the individuals agreed to pay the Government \$1 million to cover the cost of the investigation. Eight individuals and the company plead guilty to charges against them.

Criminal charges were filed against four additional individuals (including one of those identified above against whom a criminal information had been filed) and one company. One individual was terminated from employment. Fines totaling \$24,500 have been levied.

As part of their plea agreements, the two NASA employees resigned their positions with the Agency

and agreed to not seek civil service employment again. One of the two NASA employees, pleaded guilty to all six counts of an indictment charging one count of conspiracy, three counts of bribery, one count of violating a Federal procurement statute, and one count of accepting a gratuity. The employee was sentenced to 5 months in prison, fined \$3,000, ordered to make restitution in the amount of \$8,000, and ordered to pay court costs of \$300. The employee was also placed on probation for 3 years after release from prison.

The other NASA employee was placed on probation for 2 years and ordered to pay court costs of \$100. A contractor employee pleaded guilty to two counts of bribery and was placed on probation for 2 years and assessed court costs of \$100. A criminal information was filed against another contractor employee, charging the employee with one count of unlawfully converting NASA documents to personal use. Resolution of the charges against the contractor employee and one other individual is pending. Five individuals have been suspended from Government contracting pending the disposition of a proposal that they be debarred.

UPDATE: The contractor employee plead guilty to the charge of unlawfully selling NASA documents, was sentenced to 6 months probation, fined \$100, and ordered to perform an unspecified amount of community service on national holidays. Trial of another individual resulted in a hung jury. The prosecution decided not to retry the case and dropped the charges. Sentencing of one individual and a company is pending.

TASK FORCE INVESTIGATION RESULTS IN 2 INDICTMENTS AND 7 CRIMINAL INFORMATIONS

A joint investigation by the NASA OIG, FBI, NCIS, AFOSI, DOT OIG, and Army Criminal Investigations Command (CID) resulted in two indictments and the filing of seven criminal informations. The indictments and informations charged three companies and seven individuals with fraudulently misrepresenting that the fasteners and fittings which they sold to Government customers met the specifications of the contracts and purchase orders under which they were purchased. DOD personnel responsible for supply and purchasing assisted in the investigation.

A related civil complaint against an individual and his company resulted in the forfeiture of \$2.2 million in assets plus one luxury and one sports vehicle. The individual plead guilty to two charges of wire fraud and entered similar pleas on behalf of his company. The individual was sentenced to 5 years in prison and fined \$75,000.

Another company and its president entered a guilty plea to a charge of conspiracy.

UPDATE: The company president was sentenced to 4 months in jail, placed on probation for 3 years, and fined \$10,000. The company president also agreed to make restitution in the amount of \$170,000. The company was fined \$10,000.

SIX CHARGED WITH FRAUD IN A SCHEME TO DEFRAUD THE GOVERNMENT

As a result of an OIG investigation, three NASA employees, one DOD employee, and two former contractor employees were indicted on charges that they engaged in a scheme to defraud the Government. The 31-count indictment alleged that the contractors allowed the Government employees to plagiarize Government-funded research reports that had been prepared by the contractors at Government-expense and submit them as their own to satisfy advance degree requirements. It alleges that, in return, the Government employees, who were employed in positions to monitor, influence,

or award contracts, steered contracts to the contractors.

UPDATE: Following a trial by jury, five of the six defendants were found guilty of various charges in the indictment. Trial of the sixth defendant, a NASA employee, was delayed. One former contractor employee was found guilty of 28 counts of mail fraud, sentenced to 24 months in prison, placed on probation for 3 years, ordered to make restitution in the amount of \$126,635, and pay fees totaling \$1,400. The other former contractor employee was found guilty on 21 counts of mail fraud, sentenced to 12 months in prison, placed on probation for 3 years, ordered to make restitution in the amount of \$841, and ordered to pay fees totaling \$1,050.

The DOD employee was found guilty on five counts of mail fraud, sentenced to 3 months in prison and 3 months home detention, placed on probation for 3 years, ordered to make restitution in the amount of \$1,560, and ordered to pay fees totaling \$697. Following the conviction, a DOD agency terminated the employee.

One NASA employee was found guilty on eight counts of mail fraud and one count of perjury, was sentenced to 5 months in prison, 5 months home detention, placed on probation for 2 years, and assessed fees totaling \$1,194. The employee was terminated from NASA employment.

The other NASA employee was found guilty of six counts of mail fraud, sentenced to 4 months in prison and 4 months home detention, placed on probation for 2 years, and assessed fees totaling \$895. The employee took early retirement from the Agency.

CIVIL COMPLAINT FILED FOR FALSE TRAVEL CLAIMS

Following an OIG investigation, an AUSA filed a civil complaint against a senior NASA official charging him with submitting over \$18,000 in fraudulent travel costs over a 2-year period. The complaint sought more than \$400,000 in restitution, fines, and penalties.

UPDATE: The individual who retired from the Agency agreed to a consent judgment and agreed to repay the Government \$55,000 to settle claims that the individual filed 35 false and fraudulent travel vouchers while employed by NASA over a 2-year period. The individual admitted to falsely claiming lodging expenses on vouchers totaling over \$18,000.

SPACE COMMUNICATIONS

FASTENER COMPANY AND TWO OFFICIALS CHARGED

As a result of an investigation conducted by the OIG, FBI, DCIS, DOT OIG, AFOSI, and the NCIS, a fastener supply company, its president and vice president, were charged with mail fraud in a criminal information filed in U.S. District Court. The information alleges that the company and its two principal officials engaged in a scheme to defraud NASA and the DOD by providing the agencies commercial grade fasteners but certifying that the fasteners met military specifications and national aerospace standards. The investigation disclosed that NASA used the fasteners in an antenna system that formed part of the space tracking network.

UPDATE: The company and the two officials plead guilty to the charges. Sentencing is pending.

**CIVIL JUDGEMENT AWARDED;
CRIMINAL CHARGES FILED**

A joint OIG investigation with the AFOSI, NCIS, CID, and Department of the Interior OIG, resulted in a civil judgement of \$52,595 against a surety company and its president for costs associated with the default of a contractor at a NASA Center for which they had provided a bogus performance bond.

Three companies and six individuals were indicted on charges that they falsified documents submitted in support of surety bonds on contracts. Two individuals and one company pled guilty to the charges against them.

One of the individuals who was charged entered a guilty plea to one count of submitting a false official certificate or writing. The individual was fined \$3,525 and placed on probation for 1 year. During a jury trial, the court directed a verdict of acquittal against two individuals and two companies on charges involving one of the DOD contracts. Following the jury trial, two of the individuals and two companies were convicted on all remaining counts in the indictment. Another individual was found not guilty.

One of the individuals found guilty during the trial was sentenced to 5 years and 3 months in prison, ordered to make restitution in the amount of \$1,804,880, ordered to pay \$350 in court costs, and placed on probation for 3 years after release from prison. The other individual was sentenced to 4 months in prison on each of four counts, to be served concurrently, ordered to make restitution in the amount of \$363,813, ordered to pay \$200 in court costs, and placed on probation for 3 years after release from prison. One of the companies was placed on probation for 5 years and fined \$200.

UPDATE: In continuing judicial actions in this matter, one individual surety was sentenced to 5 years probation, ordered to make restitution of

\$176,382 and pay \$50 in court fees. Another surety plead guilty to one count of making false statements, was sentenced to 3 years probation, and ordered to make restitution of \$93,230. A third surety was sentenced to 8 months in a halfway house, ordered to make restitution of \$910,000, and placed on probation for 3 years.

The president of a construction contractor involved in the matter entered into a civil settlement agreement and paid \$40,000 to the Government. The president of another contractor and company were fined \$6,250 and placed on probation for 2 years.

**INDICTMENT RETURNED
IN THEFT CASE**

An OIG investigation resulted in the indictment of an employee of a visitor's center at a NASA Center charging her with converting uniforms purchased at NASA's expense for use by employees at the visitor's center to her own use. The investigation disclosed that the employee ordered the uniforms, was paid for their cost, but never delivered them to the visitor's center.

During the investigation, the employee abandoned her position. After the indictment was returned, she became a fugitive from justice for an extended period. She surrendered to authorities, pled guilty, and was sentenced to 6 months in prison.

The former employee was suspended from contracting with the Government pending disposition of a proposal to debar her.

UPDATE: The employee was debarred for a period of 3 years.

EMPLOYEE INDICTED ON THEFT, FALSE STATEMENT, AND CONFLICT OF INTEREST CHARGES

A joint OIG/FBI investigation resulted in the indictment of an employee at a NASA Center. The indictment charged the employee with two counts of conflict of interest, three counts of conversion of Government property, and one count of filing a false statement. The indictment alleged that the employee entered into financial relationships with contractors over whom contract monitoring responsibilities were exercised. The employee was the technical monitor on a NASA contract which developed computer-related equipment and software that the employee allegedly sold for personal gain. The equipment and software were exclusive to NASA at the time the employee offered them for sale and were not available elsewhere.

The indictment also alleged that the employee used Government facilities, schematic drawings, testing equipment, and Government and contractor personnel to deliver the equipment that was sold. It also alleged that false statements were made on an application to engage in outside employment to avoid drawing attention to personal financial transactions.

The employee retired from the Government. He entered a plea of guilty to a charge of conflict of interest, one of two such counts in the indictment, and was sentenced to 3 years probation, with special conditions of 1 month in a halfway house followed by 2 month's home detention. He was also fined \$5,000.

The individual and a company in which he is an official have been suspended from Government contracting pending disposition of a proposal to debar them.

UPDATE: The individual and company were debarred for a period of 3 years.

FORMER EMPLOYEE SENTENCED

Following an OIG investigation, a former employee at a NASA Center was sentenced to 12 months incarceration to be followed by 3 years of supervised probation. The employee was also ordered to make restitution in the amount of \$50,000. He elected to resign his position after learning of the investigation. The investigation disclosed that the employee created a fictitious company and misused his position to direct purchase orders valued at \$114,000 to the company. The former employee accepted the terms of a plea agreement, in which he entered a guilty plea to a charge of theft of Government property.

The individual and a company in which he is an official have been suspended from Government contracting pending disposition of a proposal to debar them.

UPDATE: The individual and company were debarred for a period of 3 years.

INFORMATIONS FILED IN BRIBERY AND GRATUITIES SCHEME

As a result of a joint investigation conducted by the OIG, FBI, and DCIS, criminal informations were filed against a NASA employee and two contractor employees. The NASA employee and one of the contractor employees were each charged with one count of bribery. The investigation substantiated allegations that the three participated in a scheme to fraudulently award purchase orders to one contractor employee. The informations allege that the contractor employee, who performed no work on the purchase orders, split the proceeds from the scheme with the NASA employee after being paid by the Center. The other contractor employee was charged with one count of offering a gratuity for his role in purchasing a computer at a contractor's expense and then providing the computer to the NASA employee for his personal use.

UPDATE: The Government employee retired from the Agency. The individual pled guilty to the charge and was sentenced to 6 months home confinement, placed on probation for 3 years, fined

\$2,000, and was ordered to make restitution of \$10,000. The contractor employees also plead guilty to the charges against them. One was sentenced to 3 months home detention, placed on probation for 2 years, fined \$5,000, and ordered to pay a \$50 court fee. Sentencing of the other contractor employee is pending.

[Note: This page in the original document contains a photograph. For size of transmission purposes, this page is not included in this electronic copy.]

Chapter III - Legislation, Regulations, and Legal

LEGISLATION

Proposed Draft Bill on Law Enforcement Authority. During this reporting period, we commented favorably upon a PCIE draft bill which would extend full law enforcement authorities to IG agents. The bill would empower the IG to delegate full law enforcement powers to IG agents, such as the power to execute search warrants, make arrests, and carry firearms, without the need to seek special deputation powers from the U.S. Marshals. We believe such authorities will make more efficient the ability and enhance the safety of IG agents responding to circumstances within the jurisdiction of the OIG's investigative cognizance.

Remedy Coordination Official. This office has proposed that 10 USC 2307(h)(8) be amended to establish a remedy coordination official within NASA. Such an official could be empowered to ascertain whether the full scope of remedies (criminal, civil, contractual and administrative) are considered when the Agency pursues a case. NASA is the only civilian agency which lacks statutory authority to establish this position, and it is an authority which NASA would like to have.

S. 946, Information Technology Management Reform Act of 1995. This bill would effectively repeal the Brooks bill. It would create a new presidentially-appointed Chief Information Officer. The bill would require commercial, off-the-shelf buying of computer hardware and software, and would strip the GSA Board of Contract Appeals of jurisdiction over ADP bid protests. While the bill contains welcome reforms of ADP acquisition practices in the Federal Government, the OIG is concerned about the scope and number of mandated IG reviews required by this piece of legislation. The OIG urges that these reviews and audits, which are repetitive and unfunded, be permissive rather than mandatory, so that the IG

can ascertain the most efficient and economical use of her audit resources.

REGULATIONS

During this reporting period the OIG reviewed and commented on, as appropriate, 16 agency regulations.

Diversity Advocacy. The OIG Attorney-Advisor has proposed to senior IG management a "diversity advocacy" program within the OIG. The program would provide a means of alternative disputes resolution to the formal equal employment opportunity investigative and hearing process. Advantages of the advocacy program are that it is quick, less stressful, and less expensive than the traditional method of developing facts for, and a resolution to, an EEO case. The diversity advocate would be empowered to resolve complaints by immediate intervention with the complainant and the alleged discriminating official. Participation in the process would be totally voluntary. The proposal is pending review within OIG senior management.

OMB Proposed Regulations Implementing the Paperwork Reduction Act of 1995. Under the regulations proposed to amend Title 5 of the Code of Federal Regulations, OMB would be empowered to disapprove certain collections of information under the Act. Similarly, a senior official of the agency or designee can withhold approvals of proposed submissions of collections of information to OMB. The OIG is concerned whether the withholding of approvals of collections of information for legitimate audit purposes would pose a direct conflict with the IG Act, which expressly states that the head of the agency cannot prevent the IG from carrying out any audit within the jurisdiction of the agency IG.

LEGAL MATTERS

Subpoenas. During this reporting period the OIG issued 29 subpoenas *duces tecum* in support of ongoing investigations.

Freedom of Information Act (FOIA) Requests. During this reporting period the OIG processed 47 FOIA requests, of which 7 were appealed.

Appendix I - Audit Reports Issued by NASA OIG

Section 5(a)(6) of the Inspector General Act, as amended, requires a listing of each audit report issued by the OIG during the reporting period and for each report, where applicable, the total dollar values of questioned costs (*), including separate identification of unsupported costs, and recommendations that funds be put to better use (**).

For this period, a total of 22 reports, identified \$2,714,146 in questioned costs, and \$548,526,800 in recommendations that funds be put to better use.

<u>Report</u>	<u>Report Title & Monetary Amount</u>	<u>Report</u>	<u>Report Title & Monetary Amount</u>
AR-95-003	Relocation of RSRM Nozzle Production Operations to Yellow Creek (**\$528,000,000)	HQ-95-005	NASA International Agreements and Contracts
AR-95-004	Procurement Practices at the Lockheed Missiles and Space Company Space Systems Division	HQ-95-006	Payments Advanced on Headquarters Procurement Actions (**\$436,800)
GO-95-006	Earth Observing System (EOS) AM Instruments Planning and Management	JP-95-004	Early Retirement Option Plan at the Jet Propulsion Laboratory (*\$1,425,000)
GO-95-007	Wallops Flight Facility Sounding Rocket Program Acquisition, Inventory, and Storage of Rocket Motors (*\$28,000)	JP-95-005	Travel Policies, Procedures, and Practices (*\$661,146; **\$3,100,000)
GO-95-008	EROS Data Center (EDC) Distributed Active Archive Center Facility Addition (*\$600,000; **\$4,200,000)	JS-95-001	Audit of Clear Lake Development Facility Neutral Buoyancy Laboratory Requirements Hyperbaric Chamber Procurement
GO-95-009	Procurement of a Replacement Tracking and Data Relay Satellite (TDRS)	JS-95-002	Ground and Mission Control Operations for Space Shuttle and Space Station
GO-95-010	Subcontract Management of the EOSDIS Core System Contract	JS-95-003	Space Station Program Management Structure
HA-95-003	Audit of NASA's FY 1994 Financial Statements	KE-95-010	NASA Exchange-Kennedy Space Center
HQ-95-003	NASA Efforts to Standardize, Consolidate or Streamline	LA-95-002	Earth Observing System Program Planning for the Fairmont Facility
HQ-95-004	Computer Systems Integrity Project Management of Software Maintenance (PCIE Task 4)	LE-95-002	NASA Restructuring Makes Selected Construction of Facilities Projects Questionable (**\$12,790,000)
		MA-95-006	Office of Space Flight Consolidation of Automatic Data Processing Operations
		MA-95-007	Staffing for Space Station

Appendix II - External Audit Reports on NASA Contractors and Grantees Referred by OIG to NASA Management

This appendix lists all DCAA and other external audit reports (e.g., OMB Circular A-128 or A-133, Defense Contract Management Command) referred by the OIG to NASA management for appropriate corrective action. For each audit report of this category issued during this period, the total dollar values are indicated for questioned costs following the report titles. For this period, a total of 17 reports identified \$8,699,574 in questioned costs.

	<u>Report</u>	<u>Report Title & Monetary Amount</u>
DCAA Reports	X-GO-95-023	Timekeeping Practices
	X-GO-95-024	Timekeeping Practices
	X-GO-95-025	Cost Proposal (\$171,377)
	X-JP-95-006	Labor Floorchecks
	X-JP-95-007	CAS 405 Noncompliance - Unallowable Costs (\$5,028,708)
	X-JP-95-008	CAS 405 Noncompliance - Unallowable Costs
	X-JP-95-009	FY 1990 Indirect Cost Rates (\$840,796)
	X-JP-95-010	FY 1991 Indirect Cost Rates (\$1,022,724)
	X-JP-95-011	FY 1990 Indirect Cost Rates (\$191,900)
	X-JP-95-012	FY 1991 Indirect Cost Rates (\$218,200)
	X-JP-95-013	Labor Floorchecks
	X-LE-95-004	FY 1993 Incurred Costs (\$43,000)
	X-LE-95-006	Billing System Internal Controls
	X-LE-95-007	FY 1990 Incurred Costs (\$225,166)
	X-LE-95-008	FY 1991 Incurred Costs (\$537,926)
	X-LE-95-009	FY 1992 Incurred Costs (\$419,777)
	X-MA-95-002	Accounting System Review
Other External Reports		None this period.

Appendix III - DCAA Audits of NASA Contractors

DCAA provides various types of audit services to NASA on a reimbursable basis. The types of audits performed include: proposal evaluations which are used to negotiate the contract price; incurred cost reviews which verify amounts billed to the Government; reviews of contractor estimating, accounting, and purchasing systems; defective pricing reviews; and reviews for compliance with cost accounting standards. The resulting audit reports are sent to the NASA or Government contracting official having cognizance over the contract or contractor involved. The following sections summarize information provided during this period by DCAA on reports involving NASA activities, results of NASA actions on those reports, and significant reports that have not been completely resolved.

A. AUDIT REPORTS ISSUED

During the period, DCAA issued 1,744 audit reports (excluding preaward contractor proposal evaluations) on contractors doing business with NASA. The types of audits performed and the results of these audits are shown in DCAA provided figures shown here. (Dollar figures are in thousands.)

Type of Audit	Number of Audit Reports	Total Costs Questioned	Total Costs Avoided	Total
Incurred Costs	1,510	\$39,229	\$15,427	\$54,656
Defective Pricing	25	5,886	0	5,886
Cost Accounting Standards	209	739	0	739
Other Direct Effort	0	0	0	0
TOTALS:	1,744	\$45,854	\$15,427	\$61,281

DCAA also issued 288 reports on audits of NASA contractor proposals totaling \$1.9 billion. DCAA informed us that their March 31, 1995, cost exceptions amount was in error and that the total for the entire fiscal year 1995 was \$510.3 million. Since we reported in our March 31, 1995, semiannual report cost exceptions of \$535.2 million, we are making a downward adjustment of \$24.9 million for this reporting period. We are working with DCAA officials to ensure that this situation does not reoccur in the future.

B. NASA ACTIONS

Corrective actions taken on DCAA audit report recommendations usually result from negotiations between the contractor and the Government contracting officer. A total of 579 audit reports requiring action by procurement officials or contractors were resolved during the period which ended September 30, 1995. As shown here, contracting officers sustained \$565.6 million of exceptions included in these reports. Of the exceptions sustained, DCAA categorized \$212.5 million as net savings to NASA. Net savings represent costs for which expenditures would have been made if the exceptions were not sustained. (Dollar figures are in thousands.)

Exceptions Sustained From:	Incurred Costs	Proposal Activity	Other	Total
Costs Questioned	\$38,909	\$526,641	\$5	\$565,555
Cost Avoidance	0	0	0	0
TOTALS:	\$38,909	\$526,641	\$5	\$565,555

C. UNRESOLVED DCAA AUDIT REPORTS

NASA's policy is to make optimum use of contract administration and related support functions, including audit resolution, available from DOD and other Government agencies. However, NASA management retains responsibility for the resolution of audits of direct costs and, in those cases where NASA is the major customer, for indirect costs and operations audits. As of September 30, 1995,

there were 62 DCAA audit reports totaling \$37.8 million in questioned costs or funds recommended for better use that were unresolved. This figure includes costs subject to negotiation and to determination of allowability. Therefore, all of these costs may not be collectible. The table above provides a breakout of reports for which NASA had resolution responsibility and that were unresolved during the period. (Dollar figures are in thousands.)

Age of Audits	Over 12 Months	6 to 12 Months	Less Than 6 Months	Total
Number of Audits	51	6	5	62
Recommended for Better Use/Costs Questioned	\$34,045	\$3,134	\$703	\$37,882

Appendix IV - Glossary and Acronyms

Glossary

DISALLOWED COST	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.
EXCEPTIONS SUSTAINED	(DCAA Definition) Costs which were questioned by auditors and which agency management has agreed, are ineligible for payment or reimbursement. Ineligibility may occur for any number of reasons such as: (1) a lack of satisfactory documentation to support claims, (2) contract provisions, (3) public law, and (4) Federal policies or regulations.
FINAL ACTION†	The completion of all actions management has concluded, in its decision, that are necessary with respect to the findings and recommendations included in an audit report; and in the event that management concludes no action is necessary, final action occurs when a management decision has been made.
INVESTIGATIVE RECOVERIES	Investigations by the OIG that may result in the recovery of money or property of the Federal Government. The amounts shown represent: (1) the recoveries which management has committed to achieve as the result of investigations during the reporting period; (2) recoveries where a contractor, during the reporting period, agrees to return funds as a result of investigations; and (3) actual recoveries during the reporting period not previously reported in this category. These recoveries are the direct result of investigative efforts of the OIG and are not included in the amounts reported as the result of audits or litigation.
INVESTIGATIVE REFERRALS	Cases that require additional investigative work, civil or criminal prosecution, or disciplinary action. These cases are referred by the OIG to investigative and prosecutive agencies at the Federal, state, or local level, or to agencies for management or administrative action. An individual case may be referred for disposition in one or more of these categories.
MANAGEMENT DECISION†	The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary.
NET SAVINGS	(DCAA Definition) Costs determined by DCAA for which expenditures would have been made if the exceptions were not sustained. For incurred costs, this category represents the Government's participation in costs questioned sustained. For successful fixed-price contractor proposals, it

represents costs questioned sustained plus applicable profit. For successful cost reimbursement contractor proposals, net savings represents only the applicable estimated fee associated with the costs questioned sustained.

PROSECUTIVE ACTIVITIES

Investigative cases referred for prosecution which are no longer under the jurisdiction of the OIG, except for cases on which further administrative investigation may be necessary. This category represents cases investigated by the OIG and cases jointly investigated by the OIG and the FBI (or other law enforcement agencies), with the OIG initiating the case and reporting on its disposition. Prosecuting agencies will make decisions to decline prosecution, to refer for civil action, or to seek out-of-court settlements, indictments, or convictions. Cases declined represent the number of cases referred which are declined for prosecution (not including cases which are settled without prosecution). Indictments and convictions represent the number of individuals or organizations indicted or convicted (including pleas and civil judgments).

QUESTIONED COST†

A cost that is questioned by the OIG because of: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

QUESTIONED COSTS FOR WHICH A MANAGEMENT DECISION HAS NOT BEEN MADE

Costs questioned by the OIG on which management has not made a determination of eligibility for reimbursement, or on which there remains disagreement between OIG and management. All agencies have formally established procedures for determining the ineligibility of costs questioned. This process takes time; therefore, this category may include costs that were questioned in both this and prior reporting periods.

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE†

A recommendation by OIG that funds could be more efficiently used if management took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; (5) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or (6) any other savings which are specifically identified. (Note: Dollar amounts identified in this category may not always allow for direct budgetary actions, but generally allow the agency to use the amounts more effectively in accomplishment of program objectives.)

UNSUPPORTED COST†

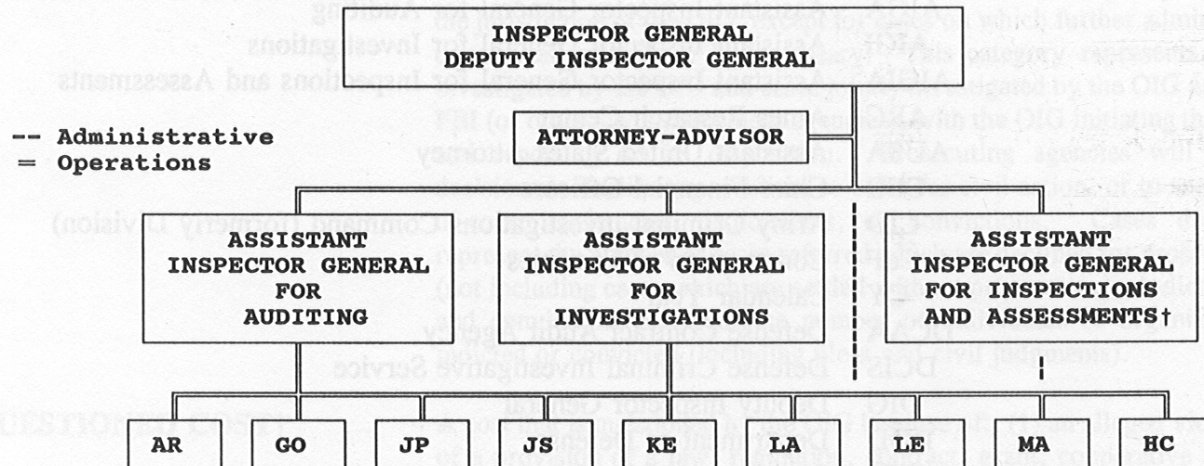
A cost that is questioned by OIG because OIG found that, at the time of the audit, such cost is not supported by adequate documentation.

†These definitions are derived from PL 100-504, the IG Act Amendments of 1988.

Acronyms

AFOSI	Air Force Office of Special Investigations
AIGA	Assistant Inspector General for Auditing
AIGI	Assistant Inspector General for Investigations
AIGIA	Assistant Inspector General for Inspections and Assessments
ARC	Ames Research Center
AUSA	Assistant United States Attorney
CFO	Chief Financial Officers
CID	Army Criminal Investigations Command (formerly Division)
CoF	Construction of Facilities
CY	Calendar Year
DCAA	Defense Contract Audit Agency
DCIS	Defense Criminal Investigative Service
DIG	Deputy Inspector General
DOD	Department of Defense
DOJ	Department of Justice
DOT	Department of Transportation
EDOS	Earth Observing System (EOS) Data Operation System
EDP	Electronic Data Processing
EEO	Equal Employment Opportunity
EFT	Electronic Funds Transfer
EOS	Earth Observing System
EOSDIS	EOS Data and Information System
ERO	Early Retirement Option
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FMFIA	Federal Managers' Financial Integrity Act
FOIA	Freedom of Information Act
FY	Fiscal Year
GSFC	Goddard Space Flight Center
IG	Inspector General
JPL	Jet Propulsion Laboratory
JSC	Johnson Space Center
KSC	Kennedy Space Center
LaRC	Langley Research Center
LeRC	Lewis Research Center
MSFC	Marshall Space Flight Center
NASA	National Aeronautics and Space Administration
NCIS/NIS	Naval (Criminal) Investigative Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSF	Office of Space Flight
PCIE	President's Council on Integrity and Efficiency
PL	Public Law
RMD	Resources Management Division
SEB	Source Evaluation Board

NASA Office of Inspector General Organization



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†As of August 1995

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INFORMATION IS CONFIDENTIAL

REPORT: FRAUD, WASTE, ABUSE, MISMANAGEMENT

CALLER CAN BE ANONYMOUS

However, each caller is encouraged to assist the NASA Inspector General by supplying information as to how they may be contacted for additional information.

Semiannual Report Questionnaire

Dear Report Recipient:

We are interested in better serving the readers of the Semiannual Report of the NASA Office of Inspector General (OIG). We would very much appreciate any comments or suggestions you have on ways this report could be of greater use to you.

If you would like to help us make this report more responsive to your needs, please return your comments by completing this page. It folds into a self-addressed mailer with postage paid.

Thank you for your participation.

Roberta L. Gross
Inspector General

Which of the following most accurately describes your work and use of the Semiannual Report?

USER	USE OF SEMIANNUAL REPORT					
	User Need for Report			Degree Meets User Needs		
	High	Medium	Low	High	Medium	Low
Congressional Member or Staff						
NASA Management						
NASA Office of Inspector General						
OIG (not NASA)						
Other Government Office						
Other (please specify below)						

I would like the write-ups (*check one*) more detailed ___ / less detailed ___ / to continue as they are ___.

I would like (*check one*) more detailed ___ / less detailed ___ information on the topic of: _____.

I (*check one*) would ___ / would not ___ like to continue to receive this report (my name and address provided below).

The report would be more useful to me if: _____

Distribution of the report to me could be improved by: _____

Additional comments: _____

Name and address (optional): _____

